

COMMITTEE ON COMMUNITY IMPROVEMENT

September 24, 2001

6:00 PM

Chairman O'Neil called the meeting to order.

The Clerk called the roll.

Present: Aldermen O'Neil, Cashin, Lopez

Absent: Aldermen Wihby, Clancy

Chairman O'Neil addressed Item 3 of the agenda:

Presentation of a Downtown Development Project by representatives of
The Norwood Group, Inc. and Coldstream Real Estate Advisors, Inc..

Mayor Baines stated I want to make a few brief comments. When I was first approached about this project some four or five months ago in terms of the general vision and obviously the potential to be able to make this work financially for the City, I became very excited about the project as did others who participated in some of the initial discussions and over the past four or five months a number of people have been involved in looking at it, including Kevin Clougherty from a financial perspective and also looking at the way it fits into the general plans that we have for the revitalization of the downtown area. I have come to the conclusion that this is a project very much worthy of the support from the CIP Committee and the entire Board of Mayor and Aldermen as we go through the phases to insure that this is a project that in the end makes sense for the City, especially in terms of the location, its proximity to the civic center and the general downtown business community as well. It addresses several areas of increasing need within our City, including the issue of hotel space and it is a different kind of hotel space that is projected here, as well as the increase in parking spaces in the vicinity of 600 parking spaces. Also, there is office space, which I believe is vitally needed in the downtown area as well. I want to thank...as you know this is a project that originally surfaced in 1969 and it was called the civic center project. The irony of ironies is this was first brought up as a project of the Manchester Housing & Redevelopment Authority at that time and here we are in 2001 with a project that has the potential to complement what is happening in the civic center area. Secondly, the issue of parking as you know is a vital concern and there is great hope that this would be a revenue bond issue for the City and will help us, especially with some of the concerns around the civic center with the

neighborhoods and also address in a very positive way some of the concerns with the downtown businesses that will be impacted by parking. I am here to lend my support as Mayor of the City to this project as we go through the phases that will follow and I ask the Board to give it its due and careful consideration.

Chairman O'Neil stated I would like to welcome Karl Norwood and Barry Brensinger and the rest of their team. Karl, I don't know if you want to introduce your team but I will turn the program over to you.

Mr. Karl Norwood stated we are certainly pleased to be here tonight with what we think is a very viable and exciting project. To begin with I would like to introduce the participants – Barry Brensinger, Fred Urtz, John Hoben and Justin Bielagus. It is hard to believe but 17 years ago we were before the community and at that time we had a plan for two office buildings of about 60,000 square feet. We also at that time had a strong tenant interest in one of the buildings. Well about eight months ago we were dusting off some plans and we came across this and we said gee I think the timing may be right. As we all know, timing is critical for any and all projects. With the evolution of the civic center underway, we said maybe we ought to take another look at this. We did meet with the Mayor and we were very pleased with his enthusiastic support. He said what I would like to do is have a feasibility study for the financial feasibility and the viability of will this work. He asked us to meet his staff who were very cooperative and helpful and after those preliminary look sees they encouraged us to take the next step and that is why we are here today. What we would like to do this evening is have Barry discuss the project itself. We would like to get into the finances that are near and dear to all of our hearts and then I would like to ask Justin to discuss the project as far as the feasibility and the market conditions. Will the project work? We believe so but I would be the first one to say that we have a long road to hoe. We have market conditions out there that as we know are changing all the time. We also have some very positive indications. One being the civic center. There is also a need for parking down there and we truly believe we can create what will be a tax neutral win-win situation both for the developer and the community and that is why we are here this evening. We don't expect to have anything for nothing. We are going to be paying what we feel is the market price for the property. We want to be in lock step with the community every step of the way because basically the project is only as good as the strength of the tenancy and it is the chicken or the egg situation. We have to take that first step and we would ask you for an option for a period of time that I will get into a little bit later in the presentation but with that I would like to ask Barry to come forward and discuss the project as a whole.

Mr. Barry Brensinger stated the project as Karl said is one that we began to work on about 18 years ago and actually did a number of studies at that time and collectively as a developer and design team invested a fair amount of research into

the property and its suitability for development. I think everyone knows the location. It consists of three parcels of land that surround the Norris Cotton Federal Building to the north, south and east. It is bounded by Chestnut Street and Pine Street on the east and west and Merrimack Street and Central Street on the north and south. There are, as I said, actually three parcels. There are two smaller parcels that flank the Federal building. They are each approximately 1/3 of an acre and then a somewhat larger parcel to the east that is also currently developed as surface parking as I think all of you know. I should add as the Mayor has pointed out that the entire property was acquired to be redeveloped by the City through the Housing & Redevelopment Authority in the late 1960's and early 1970's as an urban renewal project. The project as it is proposed includes three buildings on these three parcels. The parcel on the corner of Chestnut and Merrimack Street would be developed as an office building approximately six stories and you see it in the rendering. It is the building in the foreground to what would appear to be the left of the Federal building. An office building of approximately six stories totaling 60,000 to 65,000 square feet. The building flanking the Federal building to the south would also be approximately six stories and would consist of 100 room plus or minus hotel. Then the structure to the east would be a new parking garage and the parking garage as it is proposed precisely follows the recommendation of the Hoyle Tanner parking study, which was recently undertaken by the City and completed in July of this year. It is proposed to be a 615 car parking garage. Just to add a little bit more detail to the parking structure, of those 615 cars, approximately in rounded numbers 160 would be used to replace the existing surface parking spaces so there would be no net loss certainly with regard to the current users of those spaces. Up to 350 additional spaces within the 615 would then be used by the occupants of the two new buildings – the office building and the hotel building, and if you are adding up those numbers that would leave more than 100 additional day time spaces for general public use for others in the area who would find that convenient. Beyond that, when one thinks about the timing of the use of these spaces, it also suggests that during the evening when civic center activities are likely to be taking place, a substantial majority of all of the spaces in the garage would be available for that purpose. Those are the highlights of the building project and as we conclude our presentation I would be happy to answer any questions you may have.

Alderman Lopez stated I do have a lot of questions. I think the project is worthy. I am very curious as to why the City would have to be involved in the garage aspect of it because there have been many discussions about Bridge and Elm Street, which hasn't come forward yet. We understand there are two or three developers looking at wanting to put a garage in that area at their cost. I think that you are very familiar with and I think Jay Taylor or somebody from Finance will be able to tell us that it is very costly to run our garages in the City of Manchester. We don't make that much money. The maintenance cost of the garages is

tremendous. I think we have had quite a few maintenance charges - \$1.2 million in the last five years. Plus there is the capital improvement money that is put in the garages. We are putting \$500,000 right now into the Victory garage. So, although I believe in the concept, I am very, very not in favor of doing a garage at City expense. I was wondering if this project could not and I know from the writing here that you are basing this on the City footing the bill for the garage so I would like to have your comment on that.

Mr. Brensinger replied I would like to turn over the microphone to John Hoben. He will explain the proposal from its financial perspective and the parking garage issue in a little bit more detail and if we could add to a response to your question we would be happy to do that.

Chairman O'Neil asked are there any questions for Barry specifically related to the site design or those type of issues.

Alderman Cashin asked does the Redevelopment Authority have to have something to do with this. Are you sitting down and talking to them?

Mr. Brensinger answered yes. We have had preliminary conversations with them and they, indeed, would have a role in this.

Mr. Norwood stated I do think that it would be helpful if John could give the financial overview and we could have Barry back if there were any further questions about the plan itself.

Mr. John Hoben stated there is a chart up here that might go to addressing the question. This was included in your package. In order to have a parking garage pay for itself, you might be looking at parking rates of anywhere between \$125 or \$130 a month at the low end to as high as \$200 per month. This isn't the market to support that and that is why we haven't seen private parking garages developed for general public use. What we are proposing is an approach that should have the revenues from the project pay for the City's cost. The City will need to do its own studies and its own reviews, but in this particular case if roughly half of the revenue comes from public parking from the civic center and general public use, the other half would come from property taxes, land lease payments and parking that we would commit to as part of the development. The size of the pie in terms of the cost really doesn't change too dramatically. If you start to remove either of those pieces you are left with not enough money to pay for the cost.

Alderman Lopez stated I am still concerned because in looking at the Center of New Hampshire parking garage, Canal Street parking garage and Victory they are costing us a fortune. I think one of the major concerns that I have with this

endeavor is I have heard from 10 or 15 years the City has to invest in itself before the businesses step forward and do something and at this stage of the game I feel that the City has invested in many areas in the City. One major area is the civic center. I think there are a lot of things on the table at the present time and I don't know exactly how many projects...that is something the Planning Director and Bill Jabjiniak are going to have to provide as far as the money aspect of a lot of these projects. I realize that revenue is what you are talking about in order to build this garage but I can tell you something that you already know which is that we have increased the Center of New Hampshire parking garage, which cost about \$2.6 million or \$2.2 million and we increased another garage. I am just very leery as to the partnership, when we say partnership, on this garage aspect of the plan. If there is any way whatsoever...now you indicate Mr. Hoben that it is \$130 but looking at the figures it is going to cost approximately \$11,000/space to build that garage where we have spent \$16,000/space at the Center of NH and Canal Street. We are not making any money and there is the enormous maintenance cost money that we have put in there as a City also. I say this with respect that the City has committed itself to the City of Manchester for businesses to do something and we have stepped forward with the biggest piece of pie on the civic center. Although I agree with putting the concept forward, I would urge you if there is any way whatsoever to build this garage then do it because I know in some of the other committees there were plans submitted by the Finance Officer on expanding garages and fees and everything else and that is still on the table so unless I can get a true whole picture of this, I am just leery of it.

Mr. Hoben replied I don't think that a privately financed and operated garage is likely to be in the cards for a project like this where there is also an opportunity for public parking. In terms of the financial issues, we cannot at this time guarantee that the numbers that we provided...those are our estimates and I think that we tried to be reasonable in putting forth. What we are suggesting is in order for us to work to give you the kind of commitment that you need in order to make a final decision on proceeding with this that all of those numbers have to be pushed to your satisfaction and the City Finance Officer's satisfaction and we look forward to an opportunity to work with him in that regard.

Alderman Lopez stated you indicated on Page 10 of the proposal a contribution between \$108,000 and \$130,000. Can you tell me what the value of the building will be and how you came to those numbers?

Mr. Hoben replied that is based on...the Assessors will make their own decision and their own judgement. A lot of times property taxes are translated in the marketplace to per square foot. We were given information that between \$1.80 and \$2.00 per square foot per year was a reasonable estimate to be used and that is where that range came from.

Alderman Lopez asked have you coordinated with the City Assessors for those numbers.

Mr. Hoben answered we are not at a point where we could or should. We have relied on the Economic Development Director to see if these estimates were in line.

Alderman Lopez asked am I reading this correctly that you would have the option to buy everything in 12 months or am I reading it wrong under Page 13.

Mr. Hoben answered what is proposed is that we have an option to enter into a lease with the City and that as part of that lease we would have an option to buy the property at the same time during the term of the lease.

Alderman Lopez asked how did you come up with \$500,000.

Mr. Hoben answered it was a reasonable estimate. That is our business. We are in that marketplace. It is also about almost \$200,00 higher than the current new assessed valuation of the property.

Mr. Norwood stated keep in mind that is 2/3 of an acre as well. It is a very small parcel of land.

Alderman Lopez asked how many parking spaces are you talking about.

Mr. Hoben answered the City's report I believe called for a 615-car garage.

Alderman Cashin stated you are asking the City of Manchester to invest \$7.2 million in a parking garage and my estimate for the development is you are going to invest approximately \$14.5 million. If we take the \$14.5 million and the \$7.2 million we come up with \$21.7 million. It seems to me that anyone...if it were my project I would certainly buy into it because it is a no-brainer. The City is being asked to invest \$7.2 million for a guarantee or at least an approximate of \$21.7 million total investment, which will be taxable and be assessed at that. You and I have done business for a long time and this is the way projects are done. Unfortunately, we haven't done any projects in Manchester for awhile. I would ask this Board and this Committee to support this and go along with it because this is the way that all of the projects have been done in the 30 years I have been involved and as you know I am leaving the Board but I would appreciate you giving this some serious thought because it is in the City's best interest.

Alderman Vaillancourt stated I don't have to tell you that 13 days ago the world was turned upside down and I assume that all of the figures and all of the estimates and all of the data you put together for us were done before 13 days ago. Kevin Dillon left the room a few minutes ago, but I spoke with him last week and he said that the occupancy rate of the planes flying into the Manchester Airport had gone from 80% down to 20%. Now there is no guarantee that it is going to stay at 20% but I can't think of a worse time to be going into something like this than this current time when there is no guarantee that we are going to get back up to even 50% or 60% occupancy. Have you looked at the hotel occupancy rate around the City? The Holiday Inn for example. Have you looked at the need for new hotel rooms, which we were told existed 14 days ago but which may not exist 14 days from now.

Mr. Norwood stated we will comment about that later with Justin Bielagus. He has some information about the feasibility and the market conditions. We are also very concerned as well. I think as the saying goes, life must go on. We feel that the project makes sense. There is also...maybe in that tragedy down there there may be a benefit to a project like this. We think there is more decentralization and more concern coming out about splitting operations up. There could be an opportunity for Manchester to attract some industries and some companies from the greater metropolitan areas.

Mr. Hoben stated I think moreover the reactionary response to September 11 could have been for us to kind of pull this off the table and move on to something else, but even in the best of circumstances, a project like this before we would get to the point where we could demonstrate to you that we have all of the commitments necessary to keep our part of the bargain is 12-15 months away. We certainly hope that 12-15 months from now we will be starting at a different environment. There are no guarantees, but in assessing this ourselves what we are asking for is an opportunity for us to make an investment in the project going forward. If we meet the test we will be able to proceed. There is no guarantee that we can do that but we are prepared to make our investments and our time and our effort to do that.

Alderman Vaillancourt replied well I would just like to comment that I hope that you will coordinate any of your projections through the Manchester Airport because I think that perhaps more than the civic center that will be a vital part of whether this will be a success or not.

Alderman Cashin stated the bottom line here is the City is not committed to anything until they have their package together and come forward with it and then we are committed.

Alderman Lopez asked, Kevin, \$7.5 million for what. They have indicated 49 years here with two options. What are we looking at financially for \$7.5 million?

Mr. Clougherty answered we would have to look at the projections. What the group asked us to do was give them some debt service scenarios in terms of what might be required to retire debt on a project this size based on existing rates. The different scenarios we had depending on whether you went with a revenue bond through the Housing Authority or the City, taxable or non-taxable, all of the different ways this could be done without selecting a path right now, those ranges were from about \$800,000 if you look at the bottom of the page there, total potential City revenues. It is on Page 11. What he is doing there is he is saying right now you have nothing on that site. If you put these buildings on you are going to get a lease payment, you are going to get taxes and you are going to get parking revenues. All of those things are going to add up to a range of \$882,000 to \$1.84 million. That more than covers what the debt service would be on a \$7.2 million to \$7.4 million parking facility in today's scenario.

Alderman Lopez stated you mentioned one other thing. You mentioned Manchester Housing. What major role would they play?

Mr. Clougherty replied there are a couple of different paths you could take on this project. It could be something that involves the Housing Authority issuing the debt or it could be the City's debt. That is why you really want to reserve judgement. You want these gentlemen to go out and then come back to you with a plan. We can look at all of the different ways we can do this and find out what is the best way for the City and what is the cheapest way for the City and how we can best protect it. You do have different options that you could exercise.

Alderman Vaillancourt stated we were told that the City was just about maxed out as far as debt. You don't have a problem with assuming another \$7.2 million?

Mr. Clougherty replied again, Alderman, I will remind you that we said you were at max because of the valuation. In this case, you are bringing on new valuation and new revenues to cover the cost of this particular project. Remember when you bring on these buildings they are going to pay taxes and you are going to get a lease and you are going to get parking revenues. All of those revenues for the first ten years or so are going to be sufficient to cover the cost of the parking garage debt. At a point in time, the debt will start to decline and the taxes will break even and then those dollars could be used for whatever purpose you want. It is tax neutral for the first amount of years and that will be determined when they come to us with the final figures but the goal of this is to have it tax neutral and then have it turn positive down the road. That is why you have the additional capacity

because you are bringing on new buildings that are creating that capacity for this project.

Chairman O'Neil asked are you talking about general obligation bonds or revenue bonds.

Mr. Clougherty answered with either. You have that additional valuation that is going to be created by this project.

Chairman O'Neil asked would that have entered in using a revenue bond.

Mr. Clougherty stated if you use a revenue bond it is not going to affect your debt statement but in terms of your valuation the revenues are always going to be pledged one way or the other. It is not going to get you additional capacity in the short-term to do projects but over time you are going to have a break even and it is going to go positive on you. If you keep this revenue neutral or tax neutral in the beginning and you are not taking any of what we have out there existing and using it for this project and you are only going to use its own resources to make it work, eventually because the bonds will decline in cost you will have a tax positive situation and you can use those dollars and that valuation for other things.

Mr. Norwood stated what I would like to do is have Justin Bielagus come forward and talk briefly about the market and how we aim to find a satisfactory tenant for this project.

Mr. Justin Bielagus stated I am with Coldstream Real Estate Advisors and I was involved in the project in the 1980's with Karl. Our firm has done quite a bit of site selection work in New Hampshire and the Greater Manchester area. In the past couple of years we have brought new firms into the City that have leased over 100,000 square feet of space. Probably the most recent would have been Granite Systems on Elm Street. We have also recently undertaken several market studies of the Manchester market for firms that were looking at space here. What we found is a significant increase in the interest in Manchester, partly because of the Airport, partly because of the new restaurants and other goods and services that are downtown. The civic center is certainly a major component of that as is the proposed improvement to Granite Street. When you take a look at Manchester now versus five or ten years ago, there is a new vibrancy and a new interest in looking at downtown Manchester versus some of the suburban locations. We have also seen a strong interest in firms who are not in the Greater Manchester area, specifically Boston firms looking at the lower cost of space that we have here. International Place in Boston has lease rates in the \$80/\$90 per square foot range so there are significant cost savings to these firms to look farther north. Our tax climate is also adding to the benefits that we have. What we did the last time we

took a look at Manchester and we have been taking a look at it over the last 12 months for a large client who wanted in excess of 30,000 square feet of first class office space and we could not find any space available that would meet the client's needs in the Greater Manchester market. That started us looking at what the options were for new facilities and how this customer and other customers' needs might be addressed. So, we feel there is a strong market here based on the research that we have done. The clients that we brought to the market are pleased with their locations here. Several of them are looking for additional space in the Manchester market starting next year. The events of a week ago last Tuesday certainly have an impact on the market. We knew that the hotel occupancy rate around the airport were in effect of 90% prior to that time and that is almost unheard of. There have been several recent market studies done and several recent hotels have come on line and those numbers don't seem to change. What we want to do is we want to go back out and test that market again based on what companies long-term plans are. Some companies are going to be more impacted by the recent events. Other companies may actually benefit from some of the additional goods and services that are going to be needed. Karl and John also mentioned that there are new elements coming into a company's planning structure and that is to decentralize. Do we want all of our eggs in one basket or do we want the capability to have a facility go off-line and yet still have the capacity to serve all of our business customer's needs. We are also finding that as companies become more concerned about their economics, cities in more suburban locations where there is a lower cost of housing and a lower cost of just about everything else become much more attractive to them. We think Manchester is going to continue to be a strong market. We think we have a blip or a dip. We see it as an opportunity because we think a lot of other people will fold up their tent and go to the sidelines but this is a project that will come on-line for occupancy to two to two and a half years from today. As indicated earlier, it won't come on-line unless we have all of the information that we need and that the City needs to make this partnership economically viable for both of us. Our banks are going to be the final judge of how viable our market studies and our activities are. To give you a perspective...this is not going to be a slam-dunk situation with the tenancy. We are going to be breaking new ground. To make the project work with the office rates we are going to be in the mid \$20's and that is getting up there but we think Manchester offers enough opportunities what with the airport and the proximity to Massachusetts that you have two firms here that are actually involved in this market and we are committed to see if there is a tenancy out here that will be attracted to the site and we believe there will be. The hospitality is another situation that we believe with its close proximity to the civic center that we have a real good story to tell out there. If the market isn't there, well certainly I think everybody benefits from that information. We believe that it will be there.

Alderman Lopez stated I have heard enough and I think the information has to come back and I would like to move this so that they can go and get the numbers and bring the necessary information back to the Board of Mayor and Aldermen. There is no obligation for the City to construct a parking garage at this time.

Chairman O'Neil stated my understanding is if it receives conceptual approval from this Committee they would like to make a presentation to the entire Board. Is that correct? I would like to see them make this presentation to the full Board and then we will keep the CIP Committee in the loop and let City staff get involved as needed. That would be my suggestion maybe as early as the first meeting in October.

Deputy Clerk Johnson stated I would like to clarify what the motion is because there is some talk about conceptual approval and about just referring it to the Board. Is it the intent to make any recommendation or to just refer it to the Board? I guess there are a few options. One is to give it some conceptual approval and refer it to the Board for a full presentation with the suggestion that City staff as assigned and you could pick those City staff even at this time to report back to the CIP Committee at a later date as the project unfolds. Otherwise, you don't have a communication network back to the Board when they walk out the door.

Chairman O'Neil stated I am comfortable recommending this to the full Board to be honest with you.

Alderman Lopez stated I am comfortable recommending it as a concept or an idea with the provision on Page 14 of the document that I have.

Chairman O'Neil replied I think the development team has been very clear about that.

Alderman Lopez moved to recommend the Board of Mayor and Aldermen conceptually approve a proposal for the development of city property in the Merrimack/Central/Pine and Chestnut Street block and that a presentation be made to the full Board on October 2, 2001. Alderman Cashin duly seconded the motion.

Chairman O'Neil asked do we need to identify the City team at this point.

Deputy Clerk Johnson answered my guess would be the Finance Officer, Planning Director, perhaps the City Solicitor's Office and the Destination Manchester Coordinator or Jay Taylor.

Alderman Lopez stated I think all of the above.

Chairman O'Neil stated I do think the Housing & Redevelopment Authority needs to be involved in this process.

Alderman Lopez stated Kevin Dillon too, please.

Deputy Clerk Johnson stated we would suggest a monthly reporting basis back to the Committee until such time as they have something more substantial. That way it won't get lost in the shuffle.

Chairman O'Neil stated, Alderman Vaillancourt, I certainly understand where you want to go with Kevin Dillon and getting a feel for what is going on. They may be able, the development team and City staff, to reach out to him but I think he has his hands full right now and we don't really need to be putting this on his table. He has his plate full right now with everything that is going on. Certainly I know that he would more than welcome the opportunity to support this but I think he needs another meeting once or twice a month now...he has enough to do. Is that fine?

Alderman Vaillancourt replied well one of his representatives at the Airport could certainly sit in then I would think and help out. It is just the projections really that are awesome.

Chairman O'Neil responded I understand your point with that. It is just that I know they have their hands full out there.

Alderman Lopez stated let Mr. Dillon decide who will be communicating with the City staff.

Alderman Shea stated in lieu of the fact that there may be a "changing of the guard" in November, will the responsibility for the bonding or any other obligations be focused on the present Board or on a future Board.

Chairman O'Neil stated I don't believe there is any obligation now. If they happen to have this ready before the end of December then the sitting Board can take a vote. I don't think that is going to happen. This is going to end up with the next Board of Aldermen.

Chairman O'Neil called for a vote on the motion. There being none opposed, the motion carried.

Mr. Norwood stated I would like to thank everybody here for their support and we will work diligently with your staff and look forward to a very successful project.

NEW BUSINESS

Chairman O'Neil stated we have one item here that is of an emergency nature. Mr. Dillon, can you just summarize the request?

Mr. Kevin Dillon stated in our existing budget we had requested the ability to replace one of the existing Sheriff's department vehicles and we are still planning to proceed with that, however, the vehicle that is being replaced, instead of taking that out of service we would like to keep that in service so it actually results in the net of one additional vehicle and I need to get the registration for it. It would be very helpful for us in light of the increased security at the Airport to have that vehicle in service.

On motion of Alderman Cashin, duly seconded by Alderman Lopez, it was voted to approve the request.

There being no further business, on motion of Alderman Cashin, duly seconded by Alderman Lopez, it was voted to adjourn.

A True Record. Attest.

Clerk of Committee